

# SHEFFIELD CITY COUNCIL

## Overview and Scrutiny Management Committee

### Meeting held 2 December 2021

**PRESENT:** Councillors Denise Fox (Chair), Joe Otten (Deputy Chair), Angela Argenzio, Ian Auckland, Steve Ayris, Dawn Dale, Mark Jones, Mike Levery, Bryan Lodge, Martin Phipps and Mick Rooney

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#### **1. APOLOGIES FOR ABSENCE**

1.1 No apologies for absence were received.

#### **2. EXCLUSION OF PUBLIC AND PRESS**

2.1 **RESOLVED:** It was reported that Appendix 2 to the report in Item 4 on the agenda (Item 5 of these minutes) was not available to the public and press because it contained exempt information as described in paragraph 3 of Schedule 12A to the Local Government Act 1972, as amended. Accordingly, if the content of the appendix was to be discussed, the public and press would be excluded from the meeting.

#### **3. DECLARATIONS OF INTEREST**

3.1 There were no declarations of interest.

#### **4. PUBLIC QUESTIONS AND PETITIONS**

4.1 There were no questions raised or petitions submitted by members of the public.

#### **5. CALL-IN OF THE DECISION ON THE LEISURE AND ENTERTAINMENT SERVICES REVIEW**

5.1 The Committee considered the following decision of the Co-operative Executive, made on 17<sup>th</sup> November, 2021, regarding the Leisure and Entertainment Services Review:-

1. Note the ending in 2024 of the arrangements with Sheffield City Trust around the Major Sporting Facilities (Arena, Ponds Forge and Hillsborough Leisure Centre).
2. Approve the investment in our Leisure and Entertainment facilities to deliver a balanced and sustainable portfolio of facilities which support the needs of our communities alongside elite sport and events (Investment in the facilities).

3. Note this gives an opportunity for the Council to review how leisure and entertainment services are delivered in Sheffield and approve the strategy of a Council commissioned (but market driven) approach to appointing an external partner, as outlined in this report (Who runs the facilities).
4. Delegate authority to the Director of Culture in consultation with the Leader of the Council, the Director of Finance and Commercial Services and the Director of Legal and Governance to approve procurement strategies to deliver the strategy and to award any associated contracts.
5. Note the phased delivery of this strategy will be approved via the Council's capital programme.
6. Note the programme of public consultation to inform the investment in facilities at a local level
7. Note work will begin to address backlog maintenance issues at the following facilities:
  - a. Ponds Forge International Sports Centre
  - b. English Institute of Sport Sheffield (EISS)
  - c. Ice Sheffield
  - d. Heeley Pool and Gym
  - e. Beauchief, Birley and Tinsley Golf Courses
  - f. Sheffield Arena
  - g. Sheffield City Hall
8. Note that backlog maintenance will also be addressed at Upperthorpe Healthy Living Centre which is currently run by Zest.
9. Note work will be undertaken on creating a lifecycle maintenance investment fund for Leisure and Entertainment facilities
10. Note the implications in (the closed) Appendix 1 and that further work will be done to inform how that can be progressed.

## 5.2 Signatories

The lead signatory to the call-in was Councillor Martin Smith, and the other signatures were Councillors Ian Auckland, Steve Ayriss, Mohammed Mahroof and Shaffaq Mohammed.

## 5.3 Reasons for the Call-in

The signatories wanted the Committee to consider the choice of operating model and lessons to be learned regarding the financial arrangement of the Service.

## 5.4 Attendees

- Councillor Terry Fox (Leader of the Council)

- Councillor Martin Smith (Lead Signatory)
- Councillor Mohammed Mahroof
- Ryan Keyworth (Director of Finance and Commercial Services)
- Tammy Barrass (Head of Sport, Leisure and Health)

5.5 Councillor Martin Smith, as lead signatory, raised a number of questions, and the following responses were provided:-

- The report submitted to the Economic and Environmental Wellbeing Scrutiny and Policy Development Committee two years ago related more to the operating performance of Sheffield City Trust (SCT), and not the backlog maintenance issues. The Council had been reviewing the future arrangements for the city's major sporting facilities, including those run by SCT for a number of years and, as part of this work, had commissioned a number of reports into the facilities. SCT had always required a subsidy from the Council since its inception over 30 years ago and, as a consequence of the Council's financial position in recent years, such subsidy had been reduced. This had consequently resulted in a build-up of the maintenance backlog by SCT, resulting in the condition of the buildings not being to a suitable standard. The Council had been aware of the issues regarding the maintenance backlog for some years, hence requesting the review to be considered by the Co-operative Executive on 17th November 2021.
- In line with other Council-owned buildings, the Council has had to look at how much money was able to be spent in terms of maintenance, and this had proved very difficult given the recent budget reductions.
- There had been some changes in terms of how the Council provided leisure facilities in the city, such as at Graves, Thorncliffe and Wisewood, which were all operated by Places for People. The Council had a contract with Places for People for the operation of these facilities, which contained specific performance criteria, and which put the obligation on that Organisation to contractually maintain the facilities to an agreed standard. The first option to break the contract with SCT was after 35 years, whereas the contract with Places for People was for 10 years, and this shorter period enabled the Council to manage the contract more effectively. It also provided a better opportunity for the Council to receive the facilities back in a good condition, as well as including and there was a contractual term which enabled the Council to change its mind, if required, within a reasonable time frame. These three factors were very different from the current arrangements with SCT.
- There were a number of different leases on the various assets that belonged to the Council, and which were loaned to SCT, some of which were very long. The lease was connected to the major facilities, such as Ponds Forge Leisure Centre, Hillsborough Sports Centre and Sheffield Arena, and linked to the debt taken out 35 years ago to finance the construction of the facilities for the World Student Games. The leases extended beyond this period, and there was no clarity as to whether any condition assessments had been undertaken or whether there was any photographic evidence of their condition at the time, as it was very unlikely that the facilities were ever going to be transferred back to

the Council.

- The Council was not allowed to be in control of the facilities, and the Charity Commission would become involved if it thought it was. There were shortfall funding agreements in place, which meant that the Council was obliged to fund any shortfall in the operating result of the major sporting facilities. In the past, and when required, the Council had agreed to pay SCT's bills, but this did not equate to the Council having control, certainly not in the view of the Charity Commission or SCT.
- The 2024 timescale was linked to the debt, and essentially, in this year, SCT would owe the Council money that the Council had paid for the debt. SCT had two options in terms of satisfying this obligation - pay the Council the principle of the debt or have the facilities back. On the basis that SCT was clearly not in a position to repay the debt, the Council was expecting the facilities back. However, things had changed over the years, and the Council now had a number of available options in terms of managing the construction and operation of such facilities.
- SCT was not able to put the facilities on the market for sale.

5.6 Other signatories, who were Members of the Committee, raised questions, and the following responses were provided:-

- The options being considered would not result in something similar to the current arrangements, mainly in that the lease term would be shorter, there would be full insuring and repairing leases, and there may not be a single provider for all the facilities given the different nature of the sports and entertainment facilities. The Council was looking to achieve a model similar to the arrangements regarding Graves and Thorncliffe Leisure Centres, with defined terms of reference, a clear set of performance criteria, clear service specification and full ensuring and repairing leases.
- The management of SCT was constrained to a great extent, and had not been able to run the facilities and generate a surplus of income over the years, mainly due to the size and complexity of some of the facilities. The backlog maintenance issues that had arisen overtime had meant that the facilities had not been as profitable as they could have been. SCT had discussed the issue of investment in the facilities with the Council over a number of years in order to get them to the required standard.
- The buildings had come to the end of their lives, and the Council was proposing a strategy which had identified a way of going forward which would not result in the Council being in a similar position as to what it was in now.
- That were no expectations of any of the facilities closing in the future. As part of the review work undertaken, officers had worked with Sport England on their facility planning model guidance, and it had been identified that the facilities represented what was required now for the city, and into the future. There were expectations that there would be investment in the facilities, rather than

any closures.

- It was not possible to provide details of the nominal value of the facilities if they were to be sold on the commercial market as such valuations had not been considered. This information, if available, could be provided to Members of the Committee.
- It was not believed that SCT would have been able to borrow against the value of the assets that they do not own.
- As part of the proposals, the Council had taken the city's potential population growth up to 2034 into account, both in terms of the provision and location of the facilities. There were no plans, as part of the proposals, to determine exactly what would happen, and when. Each of the different schemes would be progressed at different times, and the details in terms of each scheme would be finalised at different times. There would be sufficient opportunity to make any necessary amendments to any of the schemes throughout this process.
- The £63m represented the backlog and future maintenance required in connection with the facilities to 2028. The plan was to go beyond simply servicing such maintenance works, but also rebuild, which would include Hillsborough Leisure Centre, which would amount to over £100m of investment. For the three sites where rebuild would occur, there would obviously be lower backlog maintenance costs. The lifetime investment had been fully costed into the proposals, and once the new build facilities had been constructed to a satisfactory standard, the proposed model costed in the lifestyle and ongoing replacement, therefore the Council was confident that it was a fully costed plan.
- The proposed strategy was all about how best the Council could fund a significant amount of capital investment in the city's sports and entertainment facilities. If this was not possible, the facilities would simply degrade, and consequently have to be closed down for health and safety reasons.
- The Council had invested considerable sums into SCT in terms of essential maintenance of the facilities over the years.
- The subsidy the Council paid to SCT had reduced significantly over the years as a result of the Council's resources becoming increasingly stretched. The Council had worked very hard with SCT to try and reduce the level of subsidy. It was always expected that given their age, there would be a need for significant investment, or rebuilding in some cases, around 2024.
- The Council, in the context of providing these kind of leisure services, was relatively VAT inefficient as it was a commercial activity.
- A local authority trading company could be fairly VAT efficient as it is set up as a separate entity to do that. This represented a major difference between an in-house and a local authority trading company. There was also an opportunity

to have staff on different conditions. SCT does not operate in accordance with the Council's staffing conditions. The Council had assured, in all the modelling, that all the staff were paid at least a foundation living wage.

- Whilst the Council could be classed as 'the banker of last resort', consideration needed to be given to the risks of the Council being called in. If it was an internal department, then the Council would be in that position. If it was a local authority trading company that was wholly subsidiary of the Council, and didn't have any other business elsewhere, then the Council was very close to being called in. However, if the Council was contracting with an organisation that ran multiple facilities across the country, and had experience of running them in a sustainable way, over many years, the risk of the Council being called in to act in anyway was much lower.
- When looking at the financials underpinning the proposed strategy, the Council had modelled out the risk associated with the three operations. It was believed that the Council could run an in-house operation for roughly zero operating profit or loss, but the debt that was required to make the planned £100m investment could never be paid back.
- Consultants' reports had been used to develop the strategy, and advice would have to be taken as to whether such reports could be made public.
- Ten years was an example of the term the Council could be looking at as part of the new strategy. The Council had not yet developed the strategy for going to market, therefore had not yet determined how long any contracts would be, or how many contracts there would be.
- In terms of discounts and concessionary pricing in respect of the facilities, there would be an expectation, as part of the specification, that the existing arrangements would continue. There was currently concessionary pricing in place for a range of categories, such as people on benefits and people with disabilities. It was also planned that the exercise referral schemes would form part of the new strategy.
- As part of the specification, the Council would be building something in with regard to social outcomes and, as part of this, it would look at the use of local supply chains as part of the contract arrangements. In addition, as part of the rebuild requirements, the new facilities were more likely to have less of an impact on the environment. Each of the projects brought forward would be submitted to the Co-operative Executive, or its successor, where Members would have the opportunity to check whether such environmental requirements had been met.
- No decisions had been made with regard to the term of the contracts. The financial model underpinning the strategy has a clear, significant cost line in it for long-term maintenance, so however that's provided, the money was included in the model to do that. The modelling undertaken goes over two years, therefore long-term maintenance had been planned into the strategy.

- The Council had not ruled in or out any suggestions such as whether it contracted with someone to build and manage the facilities, or whether it built the facilities, and got someone else to manage them. The way the model had been costed at the present time was that someone would have to spend a considerable amount of money, either building new facilities or undertaking the necessary maintenance works to get the existing facilities back up to the required standard. There was a possibility that the Council's capital investment in the strategy could be less than £100m, and every effort would be made to secure external funding to reduce the amount of capital the Council would have to commit.
  - The site of the former ski village was not included in the current proposals.
  - Apart from the swimming pools, no decisions had been made to date in terms of which facilities would be included in the strategy. The Council planned to undertake localised consultation, and decisions would be taken based on this. Nothing had been ruled in or out at this stage, and each scheme submitted would be considered in detail.
  - Employment options for local people would be picked up as part of the social outcomes work on the strategy. There was already some information in the proposed strategy regarding local labour, apprenticeships and volunteering.
- 5.7 RESOLVED: That the public and press be excluded from the meeting before further discussion takes place on the grounds that, in view of the nature of the business to be transacted, if those persons were present, there would be a disclosure to them of exempt information as described in paragraph 3 of Schedule 12A to the Local Government Act 1972, as amended.
- 5.8 Members of the Committee raised questions on Appendix 2 to the report of the Executive Director, Place, and responses were provided accordingly.
- 5.9 At this stage in the proceedings, the meeting was re-opened to the public and press.
- 5.10 RESOLVED: That the Committee:-
- (a) notes the information contained in the report now submitted, the information now reported and the responses to the questions now raised;
  - (b) thanks Councillor Terry Fox, Ryan Keyworth and Tammy Barrass for attending the meeting and for responding to the questions raised; and
  - (c) agrees that no action be taken in relation to the called-in decision, but a request be made of the Co-operative Executive to consider the detail.

## **6. DRAFT WORK PROGRAMME 2021/22**

- 6.1 The Committee received a report of the Policy and Improvement Officer (Deborah

Glen) containing the draft Work Programme for 2021/22.

- 6.2 Deborah Glen reported that there was a need to arrange an additional meeting of the Committee in January 2022 to consider the Equalities Annual Report, consideration of which had been deferred from this meeting.
- 6.3 RESOLVED: That the Committee approves the draft Work Programme for 2021/ 22 now submitted.

## **7. DATE OF NEXT MEETING**

- 7.1 It was noted that (a) an additional meeting of the Committee would be held in January 2022, on a date to be arranged and (b) the next scheduled meeting of the Committee would be held on Thursday, 10th February 2022, at 1:00 pm in the Town Hall.